The Awakening of Latin America

Vittorio Corbo
Centro de Estudios Públicos
Santiago, Chile
April 23, 2012

Invited Lecture at the IE Business School, Madrid, Spain
1. Latin America in the Last Thirty Years
Latin America in the Last Thirty Years

Development models and policies

- After growing at an average annual rate of 1.9% in the 80s and 2.9% in the 90s, Latin America’s economic growth reached an annual average of 3.4% in the 2000-2010 period.

- Performance improved with reforms in development strategies and policy regimes that started in the 1990s and deepened in the last decade.

- There are two broad models of development implemented in the region:
  - Group 1: The Pacific ream one: Chile, Colombia, Mexico and Peru augmented by Brazil. (Market friendly policies, opening to trade and to FDI, sustainable macroeconomic and financial regimes).
  - Group 2: Argentina, Ecuador and Venezuela. (More populist policies).
Latin America in the Last Thirty Years

Latin America Growth (LAC-5)* (%)

The lost decade 2.4%
Boom 90’s 4.4%
Russian and Argentina Crisis 2.0%
Boom 2003-07 4.9%
Global Crisis 1.7%

*LAC-5 is the simple average of five main countries of Latin America: Brazil, Chile, Colombia, Mexico, Peru.
Source: IMF, WEO September 2011.
Latin America in the Last Thirty Years

Macroeconomic Policies

- On the macroeconomic and financial side, improvements have taken several forms:
  - Strengthening fiscal regimes in some cases supported by the introduction of fiscal rules;
  - Strengthening monetary policy regime by adopting versions of flexible Inflation-targeting regimes with more flexible exchange rate systems;
  - Upgrading the regulation and supervision of the banking and the financial system.
Latin America in the Last Thirty Years

Macroeconomic Environment Index, 2011-2012

Latin America in the Last Thirty Years

General Government Gross Debt in 2010 (% of GDP)

Japan 230
United States 140
Germany 100
United Kingdom 90
Korea 60
Hungary 50
Israel 40
India 30
Poland 30
Philippines 25
Czech Republic 25
South Africa 20
China 20
Chile 10
Peru 10
Colombia 10
Venezuela 10
Mexico 10
Argentina 10
Brazil 10

Source: FMI, WEO, September 2011.
Latin America in the Last Thirty Years

Soundness of Banks Index 2011-2012

## Latin America in the Last Thirty Years

### Inflation (% annual rate)

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Argentina</td>
<td>268.1</td>
<td>863.2</td>
<td>506.6</td>
<td>0.8</td>
<td>8.3</td>
<td>9.1</td>
</tr>
<tr>
<td>Brazil</td>
<td>123.9</td>
<td>532.3</td>
<td>1690.2</td>
<td>19.4</td>
<td>8.7</td>
<td>5.1</td>
</tr>
<tr>
<td>Chile</td>
<td>22.4</td>
<td>20.4</td>
<td>17.5</td>
<td>6.0</td>
<td>2.8</td>
<td>3.8</td>
</tr>
<tr>
<td>Colombia</td>
<td>22.7</td>
<td>24.0</td>
<td>26.4</td>
<td>17.9</td>
<td>7.3</td>
<td>4.7</td>
</tr>
<tr>
<td>Mexico</td>
<td>56.2</td>
<td>81.9</td>
<td>16.3</td>
<td>24.5</td>
<td>6.0</td>
<td>4.4</td>
</tr>
<tr>
<td>Peru</td>
<td>84.1</td>
<td>878.5</td>
<td>1607.4</td>
<td>8.4</td>
<td>2.4</td>
<td>2.6</td>
</tr>
<tr>
<td>Latin America and the Caribbean</td>
<td>79.9</td>
<td>191.1</td>
<td>237.4</td>
<td>18.6</td>
<td>8.1</td>
<td>6.1</td>
</tr>
<tr>
<td>Developing Asia</td>
<td>8.4</td>
<td>10.9</td>
<td>9.8</td>
<td>7.5</td>
<td>2.7</td>
<td>4.9</td>
</tr>
<tr>
<td>Central and Eastern Europe</td>
<td>26.8</td>
<td>33.9</td>
<td>92.7</td>
<td>46.4</td>
<td>18.1</td>
<td>6.0</td>
</tr>
</tbody>
</table>

Source: IMF, WEO September 2011.
# Fiscal Balances in Latin America: 1999-2011 (% of GDP)

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Argentina</td>
<td>-4.6</td>
<td>-7.6</td>
<td>-1.7</td>
<td>-0.8</td>
<td>-3.6</td>
<td>-1.7</td>
<td>-2.0</td>
</tr>
<tr>
<td>Brazil</td>
<td>-3.8</td>
<td>-4.2</td>
<td>-3.3</td>
<td>-1.4</td>
<td>-3.1</td>
<td>-2.9</td>
<td>-2.5</td>
</tr>
<tr>
<td>Chile</td>
<td>-1.1</td>
<td>0.1</td>
<td>7.0</td>
<td>4.3</td>
<td>-4.4</td>
<td>-0.3</td>
<td>1.4</td>
</tr>
<tr>
<td>Colombia</td>
<td>-3.7</td>
<td>-2.2</td>
<td>-0.7</td>
<td>0.0</td>
<td>-2.5</td>
<td>-3.1</td>
<td>-3.0</td>
</tr>
<tr>
<td>Mexico</td>
<td>-4.0</td>
<td>-2.4</td>
<td>-1.2</td>
<td>-1.1</td>
<td>-4.7</td>
<td>-4.3</td>
<td>-3.2</td>
</tr>
<tr>
<td>Peru</td>
<td>-2.7</td>
<td>-1.6</td>
<td>1.5</td>
<td>2.2</td>
<td>-1.9</td>
<td>-0.4</td>
<td>0.6</td>
</tr>
<tr>
<td>Venezuela</td>
<td>0.3</td>
<td>0.4</td>
<td>-0.1</td>
<td>-2.7</td>
<td>-8.2</td>
<td>-6.0</td>
<td>-</td>
</tr>
</tbody>
</table>

Source: IMF, WEO September 2011.
- In the last decade the region improved its relative GDP per capita position in with respect to industrial countries.

- However, in the last thirty years only Chile has been able to improve its relative GDP per capita position with respect to the industrial countries.

- But region wide, the combination of higher growth and targeted social policies made possible a marked improvement in social indicators.
  - This has been specially so in Chile, Brazil and Peru.

- However, LAC income distribution is still very unequal.
Latin America in the Last Thirty Years

Per Capita GDP over Per Capita GDP of United States, PPP (1980=1)

Source: IMF, WEO September 2011.
Latin America in the Last Thirty Years

Poverty in Latin America (% of people below the poverty line)

- Chile *
  - About 2010: 11.5
  - Beginning of the 2000s: 20.2
- Costa Rica *
  - About 2010: 18.9
  - Beginning of the 2000s: 20.3
- Brazil
  - About 2010: 24.9
  - Beginning of the 2000s: 37.5
- Peru
  - About 2010: 31.3
  - Beginning of the 2000s: 54.7
- Mexico
  - About 2010: 36.3
  - Beginning of the 2000s: 39.4
- Ecuador
  - About 2010: 37.1
  - Beginning of the 2000s: 49
- Colombia *
  - About 2010: 44.3
  - Beginning of the 2000s: 54.2
- Bolivia *
  - About 2010: 54
  - Beginning of the 2000s: 62.4

* Latest available Data for Brazil, Chile and Costa Rica is 2009 and for Bolivia is 2007.
Source: ECLAC, Statistical Yearbook for Latin America and the Caribbean, 2011.
Latin America in the Last Thirty Years

Infant Mortality (Under-5 Mortality Rate, per 1,000)

Source: Global Health Observatory, World Health Organization.
Latin America in the Last Thirty Years

Life Expectancy at Birth (Number of years)

<table>
<thead>
<tr>
<th>Country</th>
<th>1990</th>
<th>2009</th>
</tr>
</thead>
<tbody>
<tr>
<td>Costa Rica</td>
<td>72</td>
<td>76</td>
</tr>
<tr>
<td>Chile</td>
<td>75</td>
<td>76</td>
</tr>
<tr>
<td>USA</td>
<td>71</td>
<td>75</td>
</tr>
<tr>
<td>Peru</td>
<td>69</td>
<td>76</td>
</tr>
<tr>
<td>Mexico</td>
<td>71</td>
<td>76</td>
</tr>
<tr>
<td>Colombia</td>
<td>70</td>
<td>76</td>
</tr>
<tr>
<td>Ecuador</td>
<td>69</td>
<td>75</td>
</tr>
<tr>
<td>Argentina</td>
<td>69</td>
<td>75</td>
</tr>
<tr>
<td>Brazil</td>
<td>67</td>
<td>73</td>
</tr>
<tr>
<td>Bolivia</td>
<td>60</td>
<td>68</td>
</tr>
</tbody>
</table>

Source: Global Health Observatory, World Health Organization.
### Distribution of National Income by quintiles (%) and Gini Coefficient

<table>
<thead>
<tr>
<th>Argentine</th>
<th>Brazil</th>
<th>Chile</th>
</tr>
</thead>
<tbody>
<tr>
<td>Quintile 1 (poorest)</td>
<td>Decile 1</td>
<td>1.3</td>
</tr>
<tr>
<td>Quintile 2</td>
<td>Decile 2</td>
<td>2.3</td>
</tr>
<tr>
<td>Quintile 3</td>
<td>7.2</td>
<td>6.4</td>
</tr>
<tr>
<td>Quintile 4</td>
<td>11.5</td>
<td>10.8</td>
</tr>
<tr>
<td>Quintile 5 (richest)</td>
<td>Decile 9</td>
<td>19.1</td>
</tr>
<tr>
<td>Quintile 6 (richest)</td>
<td>Decile 10</td>
<td>43.1</td>
</tr>
<tr>
<td>Total</td>
<td>100</td>
<td>100</td>
</tr>
<tr>
<td>Gini Coefficient</td>
<td>0.542</td>
<td>0.590</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Colombia</th>
<th>Mexico</th>
<th>Uruguay d/</th>
</tr>
</thead>
<tbody>
<tr>
<td>Quintile 1 (poorest)</td>
<td>Decile 1</td>
<td>0.7</td>
</tr>
<tr>
<td>Quintile 2</td>
<td>Decile 2</td>
<td>1.8</td>
</tr>
<tr>
<td>Quintile 3</td>
<td>6.0</td>
<td>6.1</td>
</tr>
<tr>
<td>Quintile 4</td>
<td>9.7</td>
<td>10.3</td>
</tr>
<tr>
<td>Quintile 5 (richest)</td>
<td>Decile 9</td>
<td>16.0</td>
</tr>
<tr>
<td>Quintile 6 (richest)</td>
<td>Decile 10</td>
<td>52.0</td>
</tr>
<tr>
<td>Total</td>
<td>100</td>
<td>100</td>
</tr>
<tr>
<td>Gini Coefficient</td>
<td>0.572</td>
<td>0.594</td>
</tr>
</tbody>
</table>

Source: ECLAC Statistical Yearbook.

---

a/ Twenty-eight urban agglomerations. b/ Thirty-two urban agglomerations. c/ Thirty-one agglomerations. d/ Urban Population.
Strong macro-financial fundamentals have improved resilience

- In the process, the region has become more resilient to external shocks thanks to:
  - The reduction in Public Debt/GDP ratios and the marked increase in international reserves;
  - The newly gained capacity to carry out countercyclical fiscal and monetary policies;
  - The regional diversification of exports;
  - The access to precautionary financing from the IMF.
Latin America in the Last Thirty Years

Total Gross Central Government Debt (% of GDP)

Source: Reinhart and Rogoff, (2010) and DIPRES.
Latin America in the Last Thirty Years

Public External Debt (% of GDP)

Latin America in the Last Thirty Years

Current Account (% of GDP)

Latin America in the Last Thirty Years

Foreign Exchange Reserves (% of GDP)

Latin America in the Last Thirty Years

Foreign Exchange Reserves (% of total external debt)

- Argentina
- Brazil
- Chile
- Colombia
- Mexico
- Peru

1980-1984
1985-1989
1990-1994
1995-1999
2000-2004
2005-2010

Latin America in the Last Thirty Years

Adjustment to shocks: Asian Crisis versus Global Financial Crisis

- Latin America was strongly affected by the international crisis and recession of 2008-2009.

- In comparison to the Asian Crisis, external conditions in the Global Financial Crisis deteriorated sharply with the massive decline in trading partner’s growth.

- However, as a result of the reforms of the previous years and the lessons learned from the Asian crisis, when the Global Financial Crisis hit, macro imbalances were more manageable and they were able to implement countercyclical policies.

- As a result, the recovery was quite quick especially in Brazil, Chile, Colombia and Peru, but much slower in Central America and the Caribbean.
Average GDP growth in LatAm around crises (quarterly figures, % saar)

Source: Corbo and Schmidt-Hebbel (2011).
2. Latin America’s Economic Outlook
Latin America’s Economic Outlook

Economic growth has picked up momentum lately

- The region grew 4.2% in 2011, above the rate of growth of potential output.

- Consumption and investment were the main engines of growth, benefiting from favorable terms of trade, employment expansion and accommodative monetary policies.

- After showing a strong dynamism in the first half of 2011, the region's growth slowed down in the third quarter -as the crisis in Europe intensified- but took more dynamism in Q4.

- Overall, the outlook remains relatively favorable: supportive commodity prices, low international interest rates and easy financing conditions.

- Growth for 2012 is estimated at 3.6 as a result of the slowdown of advanced countries and the reduction of policy stimulus.
Latin America has benefited from improved terms of trade.

**Terms of Trade for Goods and Services**

(Index 2000=100)

- Argentina
- Brazil
- Chile
- Colombia
- Mexico
- Peru
- Latin America

Source: ECLAC, Statistical Yearbook for Latin America and the Caribbean, 2011.
Capital inflows have recovered

Net Investment Cash Flows in Latin America, by Investment Type

Applies to hedge funds that invest in emerging economies. Expressed in billions of dollars weekly moving averages accumulated in 12 months. Source: Emerging Portfolio Fund Research.
Latin America’s Economic Outlook

Risks to growth

- The main risks to the outlook are a sharp deterioration of the European crisis and a hard landing in China.

- The main defenses against a worsening of the external environment are the high level in foreign reserves, the low public debt to GDP ratios and the solid macroeconomic and financial foundations.

- However, today the region has less room for countercyclical fiscal policies, as the fiscal situation is less favorable now in comparison to 2008.

- Asia is the second country of destination of LAC’s exports but China is the main one for Chile, Peru and Brazil.

- Thus, Latin America’s growth is highly dependent on China’s capacity to achieve a soft landing in its attempt to cool off the economy and to absorb the effects of the European recession.
Latin America’s Economic Outlook

How prepared is the region to face external shocks?

- In the case of primary metals not only China’s overall rate of growth is important but also de investment intensity of aggregate demand.

- At this point, it appears that China has all the tools to achieve a soft landing and it looks like it is in the process of achieving such.

- The region has to be prepared also to avoid an unsustainable credit boom fueled by capital inflows.

- Here it is important to have an adequate mix of macroeconomic policies, a good regulation and supervision of the banking system and to develop macro-prudential policy tools.
Exports by Destination
(% of Total Exports of South and Central America)

- North America: 33%
- Asia: 32%
- Europe: 26%
- Rest of the World: 9%

Source: WTO.
China’s share total exports has increased for every country.

<table>
<thead>
<tr>
<th>Country</th>
<th>2005</th>
<th>2010</th>
</tr>
</thead>
<tbody>
<tr>
<td>Mexico</td>
<td>0.5</td>
<td>1.4</td>
</tr>
<tr>
<td>Ecuador</td>
<td>0.1</td>
<td>1.9</td>
</tr>
<tr>
<td>Colombia</td>
<td>1.1</td>
<td>4.9</td>
</tr>
<tr>
<td>Argentina</td>
<td>7.9</td>
<td>9.0</td>
</tr>
<tr>
<td>Venezuela</td>
<td>2.2</td>
<td>9.8</td>
</tr>
<tr>
<td>Peru</td>
<td>10.9</td>
<td>12.1</td>
</tr>
<tr>
<td>Brazil</td>
<td>5.8</td>
<td>16.9</td>
</tr>
<tr>
<td>Chile</td>
<td>11.4</td>
<td>24.4</td>
</tr>
</tbody>
</table>

Source: JPMorgan, Latin America and Caribbean Outlook for 2012.
### GDP Growth (%)

<table>
<thead>
<tr>
<th>Country</th>
<th>2010</th>
<th>2011</th>
<th>2012</th>
<th>2013</th>
</tr>
</thead>
<tbody>
<tr>
<td>Argentina</td>
<td>9.2</td>
<td>8.9</td>
<td>4.2</td>
<td>3.5</td>
</tr>
<tr>
<td>Brazil</td>
<td>7.5</td>
<td>2.7</td>
<td>3.0</td>
<td>3.2</td>
</tr>
<tr>
<td>Chile</td>
<td>6.1</td>
<td>6.0</td>
<td>4.3</td>
<td>4.6</td>
</tr>
<tr>
<td>Colombia</td>
<td>4.0</td>
<td>5.9</td>
<td>4.7</td>
<td>5.3</td>
</tr>
<tr>
<td>Mexico</td>
<td>5.5</td>
<td>4.0</td>
<td>3.6</td>
<td>3.5</td>
</tr>
<tr>
<td>Peru</td>
<td>8.8</td>
<td>6.9</td>
<td>5.5</td>
<td>5.9</td>
</tr>
</tbody>
</table>

### Inflation (Dic-Dic)

<table>
<thead>
<tr>
<th>Country</th>
<th>2010</th>
<th>2011</th>
<th>2012</th>
<th>2013</th>
</tr>
</thead>
<tbody>
<tr>
<td>Argentina</td>
<td>10.9</td>
<td>9.8</td>
<td>10.3</td>
<td>10.0</td>
</tr>
<tr>
<td>Brazil</td>
<td>5.9</td>
<td>6.5</td>
<td>5.0</td>
<td>5.3</td>
</tr>
<tr>
<td>Chile</td>
<td>3.0</td>
<td>4.4</td>
<td>3.2</td>
<td>4.1</td>
</tr>
<tr>
<td>Colombia</td>
<td>3.2</td>
<td>3.7</td>
<td>3.1</td>
<td>3.6</td>
</tr>
<tr>
<td>Mexico</td>
<td>4.4</td>
<td>3.8</td>
<td>3.6</td>
<td>3.9</td>
</tr>
<tr>
<td>Peru</td>
<td>2.1</td>
<td>4.7</td>
<td>2.6</td>
<td>3.4</td>
</tr>
</tbody>
</table>

3. Challenges
Challenges

Growth with Equity

- The main challenge for Latin America today is to administrate the favorable terms of trade creating the conditions for sustainable growth with less dependence on primary commodities and with more equity.

- Progress in these dimensions requires to raise Total Factor Productivity (TFP) and to upgrade the human capital base, especially the one of the poorest.

- High growth and a better distribution of human capital will also help to improve the bad income distribution of the region.
Challenges

Rate of Growth of TFP (Percentage points per annum)

1970-1989

- Advanced Economies
- Developing ex. LAC&China
- Emerging Asia
- Low Middle Income
- High Middle Income
- Medium/Small
- Great Economies
- Caribbean
- Central America
- South America y Mexico
- LAC

1990-2006

- Advanced Economies
- Developing ex. LAC&China
- Emerging Asia
- Low Middle Income
- High Middle Income
- Medium/Small
- Great Economies
- Caribbean
- Central America
- South America y Mexico
- LAC

Source: Latin America’s Regional Economic Outlook, IMF, April 2007.
Challenges

A pending reform agenda

- To achieve its objectives, the region needs to work on many fronts:
  - (1) Increase competition, specially in the service sectors;
  - (2) Strengthen human capital formation (improve the quality of public education and training);
  - (3) Improve the functioning of labor markets (more flexibility in working conditions and more security in contracts);
  - (4) Improve the efficiency of the State (from poverty focus to a focus on providing services to the middle class and improving governance);
  - (5) Upgrade the framework for technological innovation.
Quality of Primary Education Index 2011-2012

Challenges

Challenges


Challenges

Capacity for Innovation Index 2011-2012

Japan, Germany, United States, France, United Kingdom, Malaysia, Korea, China, Canada, Australia, New Zealand, Brazil, Ireland, Russia, Costa Rica, South Africa, Thailand, Colombia, Chile, Mexico, Argentina, Ecuador, Philippines, Peru, Venezuela.

Challenges

How to tackle the income distribution issue?

- Advances in technologies results in a substantial increase in the demand for human capital and the globalization increases the supply and reduce the demand for low skill labor.

- Thus, in an open market economy the opportunities to improve income distribution are in improving the human capital of the bottom there quintiles of the income distribution.

- For this what is required is an upgrade of the quality of the pre-school, pre-primary, primary and secondary education that receive the poorest groups in the population.

- A level playing field is a prerequisite to go the extra mile in improving their access to technical and university education.

- Higher education is a very good private investment for students that have the pre-requisites to succeed; a good quality pre-university education.
The Awakening of Latin America

Vittorio Corbo
Centro de Estudios Públicos
Santiago, Chile
April 23, 2012

Invited Lecture at the IE Business School, Madrid, Spain